



Washington State Auditor's Office

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Fraud Investigation Report

Joint City of Republic-Ferry County Housing Authority

For the Investigation Period January 1, 2011 through October 31,
2012

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Washington State Auditor's Office

December 31, 2015

Joint City of Republic-Ferry County Housing Authority
Republic, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Joint City of Republic-Ferry County Housing Authority. In November 2012, while conducting our accountability audit, the Housing Authority notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation over cash receipting of tenant rental income at the Housing Authority from January 1, 2011 through October 31, 2012. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Sarah Walker, Fraud Manager, at (509) 454-3621.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

cc: Ms. Joyce Schertenleib, Chief Accountant
cor3@rcabletv.com,

FRAUD INVESTIGATION REPORT

Investigation Summary

In November 2012, we started our accountability audit covering fiscal year 2011, and learned the Fiscal Manager/Accountant and Occupancy Specialist had resigned in the previous month. During the planning of our audit, we identified unusual variances between receipting records and bank deposits and requested additional information from the Housing Authority. While gathering the requested information, the Executive Director discovered the 2010, 2011, and 2012 cash receipt records were missing. At our request, the Executive Director initiated an investigation, which she provided to us for review in December 2013.

We reviewed the Authority's investigation, performed an expanded review and concluded a total of \$16,494 in cash payments recorded by the Fiscal Manager/Accountant were not deposited in the Authority's bank account. Our review focused on the period between January 2011 and October 2012.

The Authority has filed a report with the City of Republic Police Department, which is investigating this case. This report is being referred to the Ferry County Prosecuting Attorney's Office.

Background and Investigation Results

The Housing Authority, located in Ferry County, operated on an annual budget of approximately \$700,000 for 2010 and 2011, and collected approximately \$100,000 annually in tenant rental income. Due to the Authority's lack of financial information and accurate records, we were unable to determine whether the Authority established operating budgets for 2012 and 2013.

An appointed, five-member Board of Commissioners governs the Authority. The daily operations were handled by three full-time employees: an Executive Director, Fiscal Manager/Accountant, and an Occupancy Specialist. Most tenant payments were received in the Authority's main office, and were in the form of cash, check, or money order. Periodically, the Occupancy Specialist and the Fiscal Manager/Accountant would also go door to door to collect tenant payments for the elderly and disabled tenants.

In November 2012, the Executive Director identified that the 2010, 2011, and 2012 cash receipt books used primarily for recording tenant rental payments, were missing. The Executive Director performed an investigation comparing tenant rent ledgers to accounting system records and amounts deposited at its banking institution. The investigation identified between January 2011 and October 2012, a total of \$32,814 in cash payments were recorded, but not deposited. The investigation was turned over to us for review in December 2013; however, we could not

agree with the entire \$32,814 of loss identified due to missing tenant rent ledgers and receipt books, and errors in calculations entered by the Executive Director.

In order to determine if misappropriation had occurred, we held interviews with Authority staff and conducted further cash receipt testing.

On February 13, 2013, we interviewed the Executive Director, the former Fiscal Manager/Accountant, and the former Occupancy Specialist. All three consistently described the tenant rent receipting process as follows:

- The Occupancy Specialist was primarily responsible for receiving the tenant rent payments. For each payment, she wrote a manual receipt from the cash receipt book and recorded the payment in the tenant ledger, including mode of payment. The Occupancy Specialist placed all receipted payments into the cash box, along with the tenant ledgers.
- At the end of each day, the Fiscal Manager/Accountant reconciled the funds in the cash box to both the tenant ledger and manually written receipts. This reconciliation verified that the Occupancy Specialist placed all receipted funds in the cash box and recorded them appropriately.
- The Fiscal Manager/Accountant used the receipt information on the tenant ledgers to record the receipts into the Authority's accounting system. She then prepared the bank deposit, and delivered it to the bank.
- The Executive Director was responsible for reconciling the receipt information to the monthly bank statements and accounting system to ensure funds collected by the Occupancy Specialist were deposited by the Fiscal Manager/Accountant. However, the Executive Director was not performing these reconciliations and therefore did not identify that funds collected were missing from the Authority's bank account.

Our review of cash receipts included comparing the tenant rent ledgers to accounting system deposit registers and detailed bank deposit records with check images. Due to missing tenant rent ledgers and receipt books, we could not complete testing for the period January 2011 through October 2012 period, and were unable to verify if additional funds could be missing. However, we did identify a total cash receipting misappropriation of \$16,494, which consisted of:

- Cash payment amounts deposited to the bank were \$13,671 less than amounts posted to the Authority's accounting system. All money orders and almost all checks recorded in the accounting system were deposited.

Receipts recorded in the tenant rent ledgers were more than receipts posted to the accounting system and deposited to the bank by \$2,823.

We have shared the results of our investigation with the City of Republic Police Department and the Ferry County Prosecuting Attorney's Office.

Control Weaknesses

Internal controls at the Housing Authority were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The former Fiscal Manager/Accountant was responsible for recording all financial transactions in the accounting system, preparing the bank deposits, and delivering the deposit to the bank.
- The Executive Director did not perform reconciliations of receipting information to deposits or accounting records.

Recommendations

We recommend the Housing Authority strengthen internal controls over cash receipting to ensure adequate oversight and monitoring to safeguard public resources and compliance with Housing Authority policies. Improvements should include the following:

- An independent review by management of accounting system transactions to ensure receipts collected are recorded and deposited properly
- Ensure that appropriate segregation of duties and monitoring over cash receipting, bank deposit preparation, and bank reconciliations are actually performed
- Ensure that records are retained and safeguarded in accordance with Local Government Common Records Retention Schedule and the Housing Authorities Records Retention Schedule, as prescribed from the Secretary of State.

Housing Authority's Response

We no longer accept cash payments from the tenants.

The person receipting funds and making the deposits is not the same person reconciling the bank accounts or entering the receipts into the accounting system.

The current Housing Authority Board is returning to having the Ferry County Treasurer act as their treasurer and the Ferry County Auditor disburse their funds on approval of the Housing Authority Board. This will assist with segregation of duties and proper records retention.

State Auditor's Office Remarks

We thank Housing Authority officials and personnel for their assistance and cooperation during the investigation.

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